PENSION MANAGEMENT OVERSIGHT COMMISSION

Legislative Services Agency
200 West Washington Street, Suite 301
Indianapolis, Indiana 46204-2789
Tel: (317) 233-0696 Fax: (317) 232-2554

MEETING MINUTES[1]

Meeting Date:	**August 20, 2008**
Meeting Time:	**10:00 A.M.**
Meeting Place:	**State House, 200 W. Washington St., Supreme Court Chambers**
Meeting City:	**Indianapolis, Indiana**
Meeting Number:	**1**

Members Present: **Rep. David Niezgodski, Chairperson; Rep. Win Moses; Rep. Woody Burton; Rep. Rich McClain; Sen. Dennis Kruse; Sen. R. Michael Young; Sen. Karen Tallian; Sen. Robert Deig; Steve Meno; Randall Novak; Matthew Buczolich.**

Members Absent: **Kip White.**

Representative David Niezgodski, Chair, called the meeting to order at 10:00 a.m. Commission members were introduced. The commission reviewed the topics assigned by the Legislative Council.

Public Employees' Retirement Fund

Mr. Terren Magid, Executive Director of the Public Employees' Retirement Fund (PERF), provided an update to the commission (See Exhibit 1). Mr. Magid discussed PERF's mission statement contained in Exhibit 1. He provided a plan overview. PERF manages six funds: PERF; Judges' Retirement System; Legislators' Retirement System; 1977 Police Officers' and Firefighters' Pension and Disability Fund; Excise Police, Gaming Agents, and Conservation Officers Retirement Fund; and the Prosecuting Attorneys' Retirement Fund. There are approximately 225,000 employees in the six funds, with 37% of the active members in the funds vested. PERF and the 1977 Police Officers' and Firefighters' Pension and Disability Fund

---

[1] Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of $0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is http://www.in.gov/legislative/. No fee is charged for viewing, downloading, or printing minutes from the Internet.

account for approximately 99% of the six funds. PERF interacts with approximately 1,200 employers, some on a daily basis. Sixty-four percent of the employers have 50 employees or less. Three percent of the employers have 1,000 employees or more. Mr. Magid said that as of June 30, 2008, net assets of the PERF-managed funds have decreased by 8.4%. He said that the funded status of the six funds is 99.3% funded, with the 1977 Police Officers' and Firefighters' Pension and Disability Fund funded at 108%. PERF, the largest of the six funds, has a funded status of 98.2%.

Mr. Magid told the commission that there was a drop in liabilities in 2003 because of change in actuarial assumptions. In 2005, the actuarial assumptions returned to the pre-2003 period. He said that the rates are unchanged from last year. Mr. Magid also said that liabilities will grow as employees age.

Mr. Magid provided updates on operations, investments, paying benefits, education, online services, and regional services. He said that a regional services team was created to provide one-on-one counseling and other contact throughout the state. Mr. Magid told the commission that PERF has received its second clean audit opinion by the State Board of Accounts. He said that customer service is a major goal of PERF. For this year, he said the goals are IT data clean-up and technical changes and preparing for phase two next year.

Mr. Magid told the commission that PERF has a target date of January 1, 2010, for daily valuations of the employee annuity savings account (ASA). He said that it will take time to initiate replacement changes for the current benefit system. Mr. Magid told the commission that he is looking to replace the software.

Addressing Sudan divestment, Mr. Magid said that legislation passed in 2007 requires both PERF and the Teachers' Retirement Fund (TRF) to divest from companies involved in certain industries with operations in Sudan. Both PERF and TRF were required to make a good-faith effort to identify "scrutinized companies" by March 30, 2008. PERF and TRF hired a research firm to assist with this effort. PERF and TRF contacted all companies who met the criteria under the statute on October 23, 2007. In response to a commission question, Mr. Magid said that the value of the holdings in the companies totaled $25.7 M as of June 30, 2008, down from $64.2 M as of January 1, 2008.

Mr. Magid briefly discussed the Legislators' Defined Contribution Pilot Program. The program was initiated on January 1, 2004. The daily valuations available to the Legislators' Defined Contribution Plan will be available to PERF members on January 1, 2010. Recommended legislation would require the following: requiring data and contributions to be submitted electronically; simplifying back-interest calculations; and making the Legislators' Defined Benefit Pilot Program permanent. Exhibit 1A addresses this issue.

Teachers' Retirement Fund

Mr. Steve Russo, Executive Director of TRF, provided an update to the commission (See Exhibit 2).

Mr. Russo discussed the mission statement for TRF. He then provided an overview of the TRF. There are over 160,000 members of TRF, with 361 employers. As of June 30, 2008, TRF had net assets of $8.6 B. Mr. Russo told the commission that TRF manages one fund, with two accounts. Each account is comprised of two sub-accounts: (1) a defined benefit; and (2) the annuity savings account (ASA). The Pre-1996 Account is a defined benefit and is funded on a pay-as-you-go basis from state appropriations. The ASA is funded from a 3% employee contribution. The 1996 Account is a defined benefit and is actuarially funded from employer contributions (7.25%). This rate will be reduced to 7% on January 1, 2009. The retirement benefits are the same for each account. Mr. Russo said that the 3% for the ASA is picked-up by employers for the most part.

Mr. Russo discussed the retirement options available to TRF members, along with disability benefits. The TRF pension benefit is based on the average of the member's five highest years, not necessarily consecutive. This is the same for PERF. Vesting for the defined benefit requires ten years, while vesting for the ASA is immediate. Mr. Russo told the commission that cost-of-living adjustments (COLAs) are granted on an ad-hoc basis. Mr. Russo said that TRF processes about 2,500 retirement applications annually, with most retirements occurring in the summer.

Returning to the funding status of TRF, Mr. Russo said that of the $6.8 B in net assets, $2 B belong to the Pension Stabilization Fund. He said that the forecast for the Pre-1996 Account is an annual appropriation approaching $1.4 B in the year 2018. This amounts to approximately 5.5% of General Fund revenues.

Mr. Russo said that annualized investment returns have averaged 7.87% over the last five years. Regarding Sudan divestment, Mr. Russo said that TRF is 100% divested as of June 30, 2008. He told the commission that he would provide them with the details of the Sudan divestment at a later date.

Mr. Russo next discussed TRF operations, telling the commission that TRF uses a scorecard of 50 different measures to evaluate performance. New initiatives for TRF consist of a communication outreach extending beyond the Indianapolis metropolitan area, attempting to reach new retirees and hires.

Mr. Russo told the commission that TRF is in the process of IT replacement with PERF. He told the commission that for the first time ever TRF sent out quarterly statements telling teachers when they could retire and how much their benefit will be. The total unfunded liabilities for TRF amounts to $10 B. Mr. Russo told the commission that he would provide the liability forecast at a later date.

Public Safety

The first public safety issue was a proposal for a nontaxable benefit upon the death of a member of the 1977 Police Officers' and Firefighters' Pension and Disability Fund. Mr. Tom Hanify, President of the Professional Firefighters of Indiana, made the presentation (See Exhibit 3). Mr. Hanify told the commission that the current death benefit is taxed, with 25% withheld. Mr. Hanify said that the proposal consists of group life insurance purchased by PERF to pay the amount tax free. He also said that the proposal provides authority for local units to purchase a group plan to do the same thing.

Mr. Magid of PERF said that PERF can purchase insurance. He said that $225,000 are paid annually in death benefits. He also said that there would be additional tax issues: first purchasing the insurance for the individual, and then the individual would be taxed on the premium. Funding options would consist of PERF paying the amount, employers paying for the insurance, or the employees paying for the insurance. The Chair announced that this issue will be on the agenda for the next meeting.

The second public safety issue was the authorization of local governments to appoint or reappoint police officers and firefighters who are at least 36 years of age.

Mr. Matt Brase, Director of Governmental Relations, Indiana Association of Cities and Towns (IACT), urged caution on issues creating a fiscal impact for cities and towns. Mr. Brase told the commission that currently cities and towns contribute 21% of covered payroll for the 1977 Police Officers' and Firefighters' Pension and Disability Fund, while members contribute 6%. Starting in January 2009, the employer contribution will be 19.5%. He also said that disability payments increase with older participants. Discussion ensued about the potential costs involved with increasing the appointment and/or reappointment for public safety officers. Mr. Doug Todd, actuary for PERF and the 1977 Police Officers' and Firefighters' Pension and Disability Fund, said that measuring the fiscal impact is difficult. With a few hires, the costs likely would not change, but with several such hires the funding costs could increase a lot. The Chair requested that Mr. Magid and PERF put together cost estimates on this proposal.

Responding to a question, Mr. Hanify said that using military personnel and volunteers would be acceptable if the funding status of the fund is not changed. Mr. Leo Blackwell of the Indiana Fraternal Order of Police said that he agreed with Mr. Hanify. Mr. Tom Miller, President of the International Professional Firefighters Union, provided the commission with a history of this proposal. In 1983, the Supreme Court threw out mandatory retirement age. During the period of 1993-96, there were no age requirements. In 1996, the federal Age Discrimination in Employment Act (ADEA) enforced a public safety exemption for entry/exit ages. Mr. Miller said that he believes that the 1977 Fund Advisory Committee would recommend no changes to the current law.

The third public safety item involved issues related to the payment of benefits to members of the 1925 Fund, the 1937 Fund, and the 1953 Fund (Section 839, HEA 1001-2008, P.L. 146-2008). Mr. Magid of PERF discussed this issue. Exhibit 4 discusses the various issues associated with PERF assuming the payments of these benefits directly to the recipients. Currently, PERF distributes money twice annually from the Pension Relief Fund to the 204 local units involved with the payments. Mr. Magid highlighted the multiplicity of the plans, the differences between the three plans involved, along with data reliability as problems.

The fourth public safety issue concerned the use of PERF disability or worker's compensation insurance for firefighter disability. Mr. Hanify presented this issue and told the commission that firefighter line-of-duty injuries are covered by all units except towns. The Chair requested that Mr. Todd provide cost data on this issue for the next commission meeting. When asked if IACT opposes this issue, Mr. Brase said not necessarily, but he urged caution.

Teachers' Retirement Fund Minimum Pension Payment $500 Monthly

Preliminary draft (PD) 3005 (Exhibit 5), which provides for a minimum monthly pension payment of $500, and Exhibit 6, which shows the actuarial liability for PD 3005, were distributed to the commission. Miss Julia Pogue, Chief Financial Officer of TRF, explained the impact. Miss Pogue said that there were 6,000 members below the $500 limit, while 1,902 members met the requirements as set out in PD 3005. She said all affected are members of the Pre-1996 Plan. The annual cost would be $1.6 M the first year and would decline slowly in subsequent years. The ultimate cost of this proposal is an increase in the present value of benefits due to the changes of approximately $10 M.

Senator Vaneta Becker addressed the commission on PD 3005. Senator Becker told the commission a similar bill was introduced last session and was heard, but not voted on. Senator Becker said that she was looking at ways to get at the problem and limit the fiscal impact. Senator Becker said that this proposal will affect teachers who retired long ago, some as long as 35 years ago. She stated that this is not a sweeping change in that it affects only 774 retirees. Senator Becker urged the commission to look behind the numbers and said that there are humans behind the numbers.

Mr. Ralph Ayres, executive director of the Indiana Retired Teachers Association (IRTA), thanked the commission for last year's bills, all of which were signed into law by the governor. Mr. Ayres said that PD 3005 is trying to get to retirees who retired before 1976. He said that he received a letter from a TRF retiree with over 30 years of teaching who is receiving $297.97 per month for a pension. Mr. Russo told the commission that the $10 M would be a one-time appropriation to cover the life of the estimated costs. Mr. Eugene Wease, Crown Point, president of the IRTA, said he supports the $500 minimum monthly pension. Miss Nancy Tolson, president-elect of the IRTA, supports the $500 minimum monthly payment. Miss Tolson referred to a handout (Exhibit 7) about John Isaacs, 85 years of age. Mr. Isaacs taught school in Indiana for 30 years, retiring in 1976 with a monthly pension of $270.

Cost of Living Adjustments (COLAs) in the State Budget

Mr. Russo of TRF said that this proposal would have little or no impact on TRF. Mr. Ayres of IRTA provided reasons why this should be included in the state budget. He said that it would provide peace of mind to retirees. Mr. Ayres said that a 1.5% COLA is factored into TRF projections and in their budget, but enabling legislation is needed for the state budget. He requested that statutory language be put into the budget; then no separate bill would be required for the short session (nonbudget session).

Mr. Phil Conklin of the Retired Indiana Public Employees Association (RIPEA) said he supports a biennial COLA, but he does not support including it in the biennial budget. He said that he supports a two-year bill, separate from the budget. Mr. Wease of the IRTA said he supports the COLA and the enabling language. Miss Tolson of the IRTA said that she supports the proposal. Mr. Steve Buschmann, representing the State Police Alliance, said he supports the proposal. He also distributed Exhibit 8.

The Chair recessed the meeting at 12:15 p.m. and reconvened the meeting at 1:15 p.m.

PERF

The issue was raised concerning the alignment of the number of years of service required for a PERF member to vest with the number of years of service required to receive death benefits. This topic was suggested by Representative William Ruppel. Representative Ruppel told the commission of a constituent who did not file retirement papers. He said that he would file a bill in the 2009 session, retroactive to January 1, 2007, to make the necessary changes.

Mr. Russo of TRF said that TRF does not have an issue regarding alignment of the number of years of service required to receive death benefits because language in the Indiana Code covers this subject. Mr. Todd, actuary for PERF, distributed Exhibit 9, the estimated cost for the alignment of the benefits. For the state, there would be an increase in unfunded accrued liabilities of $1.63 M. For political subdivisions, the increase would be $2.45 M. The increase in annual cost for the state would be $505,000, and $885,000 for political subdivisions. Mr. Todd told the commission that employers would pay the increased cost for this proposal.

Judges' Retirement System

This issue concerns the benefits payable to members of the 1985 Judges' Retirement System who retire before January 1, 2010. This topic was suggested by Senator Deig. Mr. Todd distributed Exhibit 10, which details the costs associated with this proposal. Mr. Todd said that there would be a 35% average increase in benefits for those affected by this proposal. Senator Deig told the commission that there were 55 members as of July 1, 2008. He said that there may be more affected by January 1, 2010.

Legislators' Defined Contribution Plan

The proposal would allow an election to begin withdrawals from the Legislators' Defined Contribution Plan by a participant who, while serving in the General Assembly, attains a normal retirement age of at least 62. This topic was suggested by Representative Woody Burton. Representative Burton told the commission that the Internal Revenue Service (IRS) changed the law to allow withdrawals while the participant is still employed. When asked about the Plan, Mr. Magid said that there is no age in the Plan currently. He said that the IRS changed the rules. He said that PERF allows this election at age 70. Mr. Todd said that there would be no actuarial cost issues related to this proposal.

Other Study Topics

Senator Kruse suggested studying age discrimination issues. He requested information and testimony based on HB 1034 from the 2008 session. Representative Niezgodski suggested studying misclassification of employees, beginning with HB 1269 of the 2008 session. He said that there will be a formal discussion on these topics at the next meeting.

Other Business

The Chair said that Mr. Hanify suggested two topics for the next meeting. They are: (1) a COLA for the 1977 Police Officers' and Firefighters' Pension and Disability Fund ranging between 2% and 2.5% and (2) an increase in the surviving spouse benefit for the 1977 Police Officers' and Firefighters' Pension and Disability Fund from 60% to 75%, or 60% to 80%.

The Chair announced the next two commission meetings: September 11, 12:30 p.m. to 4:30 p.m. in the Supreme Court Chamber; October 2, 12:30 p.m to 4:30 p.m. in the Supreme Court Chamber.

The Chair adjourned the meeting at 1:50 p.m.